Fiscal Note

Fiscal Services Division

HF 818 – Film, Television, and Video Project Tax Credit (LSB 1235HZ)
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Fiscal Note Version – New

Description

House File 818 expands Iowa's film promotion tax credit program to allow tax credits for project salary expenditures currently excluded from the tax credit calculation. The salary expenditures includable under the Bill are up to $250,000 (projects over $10.0 million) and $1.0 million (projects over $20.0 million) in salary each for directors, producers, and principal cast members. To qualify as part of the credit calculation, the director, producer, and/or principal cast member must either be an Iowa resident or establish an Iowa-based business. The individual (producer, director, and principal cast member) does not receive the tax credit. The tax credit is awarded to the entities responsible for the project.

Current Iowa law also allows project vendors to exclude project income from Iowa income tax in the year earned. The Bill changes the exclusion to a maximum exclusion of 25.0% over each of four tax years. The Bill also establishes caps on the level of expenditures qualifying for the tax credit for compensation paid to personnel other than the director, producer, and principal cast members.

The Bill allows the Department of Economic Development to charge a fee to be paid by qualified film tax credit projects. Current law forbids a project fee.

Background

Iowa's film promotion tax credit program was created in House File 892 (Film Promotion and Video Project Promotion Act of 2007). That Act created two film expenditure tax credits for qualified projects equal to a total of 50.0% of specified expenditures. To qualify for the credit, the expenditure must be made to an Iowa resident or to an Iowa-based entity. Salaries for the director, producer, and principal actor were specifically excluded from the credit calculation. The tax credit is transferable.

The Act also allowed Iowa residents and Iowa-based businesses to exclude payments received from the sale, rental, or furnishing of services and tangible personal property directly related to the production of a qualified project. The exclusion can be utilized in the tax year the income is earned. This allows entities to become Iowa residents for just one year and fully benefit from the exclusion.

Assumptions

- The Bill expands the type of project costs that are eligible for two 25.0% tax credits. However, those tax credits would only be available for projects larger than any currently assumed to occur under current law.
- Changing the time a qualified vendor must be an Iowa resident (from one year to four years) to fully receive the benefit of the income exclusion will delay the impact of the exclusion and

also reduce the ultimate impact of the exclusion as some vendors will not remain residents long enough to fully utilize the exclusion.

- The effective Iowa income tax rate for vendors is estimated to be 4.50%.

Summary of Impacts

The provisions of the Bill will extend the time it takes for film project vendors to fully benefit from Iowa's film vendor income tax exclusion and will decrease the total value of the exclusion for vendors who do not remain Iowa taxpayers for an extended time after a project is complete.

Net General Fund Revenue Increase

	Vendor Income Tax Payments
FY 2011	$810,000
FY 2012	675,000
FY 2013	540,000
FY 2014	405,000
FY 2015	405,000
FY 2016	405,000

This fiscal impact includes only projects assumed to occur under the current film incentive program and does not include any additional projects that may be attracted by the Bill's enhanced credit structure. According to the Department of Economic Development, Iowa's film business has not had a project with $10.0 million or more in Iowa expenditures. Should a single $20.0 million project be completed under the program, the redemption of earned income tax credits could reduce net General Fund revenue by as much as $10.0 million as a result of that one project.

The fee level is not specified in the Bill, but the Department estimates annual fee revenue would equal $5,000 to $20,000 per year.

Sources

Department of Economic Development
Fiscal Services Division of the LSA

/s/ Holly M. Lyons

April 14, 2009

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to **Section 2.56**, Code of Iowa. Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.